KALMARs

SOUTH LONDON'S LEADING AGENTS

AUTUMN/WINTER
QUARTERLY MARKET REVIEW

2021

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2021 AUTUMN/WINTER QUARTER

Richard Kalmar
Managing Director

As business gets back to work, and furlough schemes come to an end, we will start to get some clarity on how the office property market in south London will look post Covid. However, the debate between those fed up with the same four walls v preferring to stay at home will run on, but the long term trends are unlikely to be really clear for another couple of years.

★ ★ ★ ★ ★
FIVE TIMES WINNER

WINNER LONDON SOUTH BANK OFFICE AGENCY AWARDS 2016

MOST ACTIVE AGENT BY NUMBER OF DISPOSALS

MOST ACTIVE AGENT BY NUMBER OF INSTRUCTIONS

As always, there are winners and losers which include the following:-

- Industrial demand remains high; long-term shortage of stock, and in particular of good investments, is having a strong downward pressure on yields and as a result industrial land values are now competing with residential in some areas. For example we have just let 2 basic warehouses with a total area of 62,000 sq ft at close to the asking terms with no rent free period.

- Inner London offices have suffered in the short term due to working from home and rents have dropped, however capital values have not suffered as much as the long term view is more positive.

- There is good demand for big offices in the long term as big companies require purpose-built greener Breeam energy rating excellent spaces.

- Local retail and café / restaurants have remained popular as have local shops, particularly those that do not compete with internet suppliers.

- Demand for dark kitchens and internet suppliers of groceries has increased exponentially with competitive rents being paid.

- Residential sales in central London have remained stable as, although some demand has shifted to outside central London, the long term inherent shortage of space in inner London has not been met.

- Demand from housing associations for sites has been somewhat subdued in part due to the costs of dealing with cladding issues.

Overall, the economy is robust and with the return to work in inner London, we anticipate that the attractions that were there before will remain and flourish as the property world adapts to the new post Covid circumstances.

Green shoots of recovery on the horizon after successful vaccine rollout

Occupiers reassess their requirements in line with new hybrid flexible workplace models

Testing times for occupiers

Demand for quality not cheap space

SE1 CENTRAL OFFICE MARKET

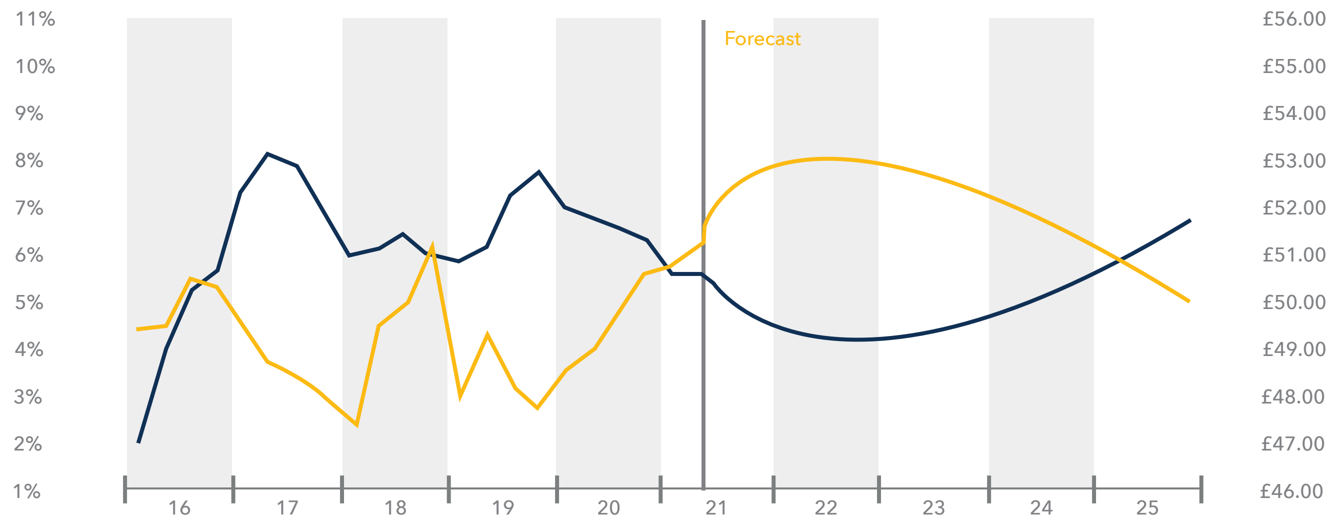
Following the successful vaccine roll out and gradual easing of restrictions, we are noticing an increase in enquiries and demand for offices is slowly starting to come back more noticeably at the smaller end of the market i.e sub 1,000 sq ft.

There is however still a high level of vacancy, which means rents and values will remain under pressure until this excess stock is taken up. We are finding that demand is for quality space that staff actually want to work in rather than being price sensitive.

More people are looking to adopt a hybrid work model moving forward, spending part of their time in the office and part time working from home resulting in an overall downsizing of occupier requirements. Prime rents have dipped and incentives have increased in order to attract tenants in an increasingly competitive market. Sales stock still remains resilient compared with lettings, which has helped support office values.

Vacancy Rate

Market Rent/SF



Wheat Wharf, Shad Thames SE1 - 7,064 sq ft
For Sale £6,000,000 / Rent £35 psf/pa

Little London, Mill Street SE1 – 11,600 sq ft
£45 PSF

5 Gainsford Street, SE1 – 9,203 sq ft
£7,500,000

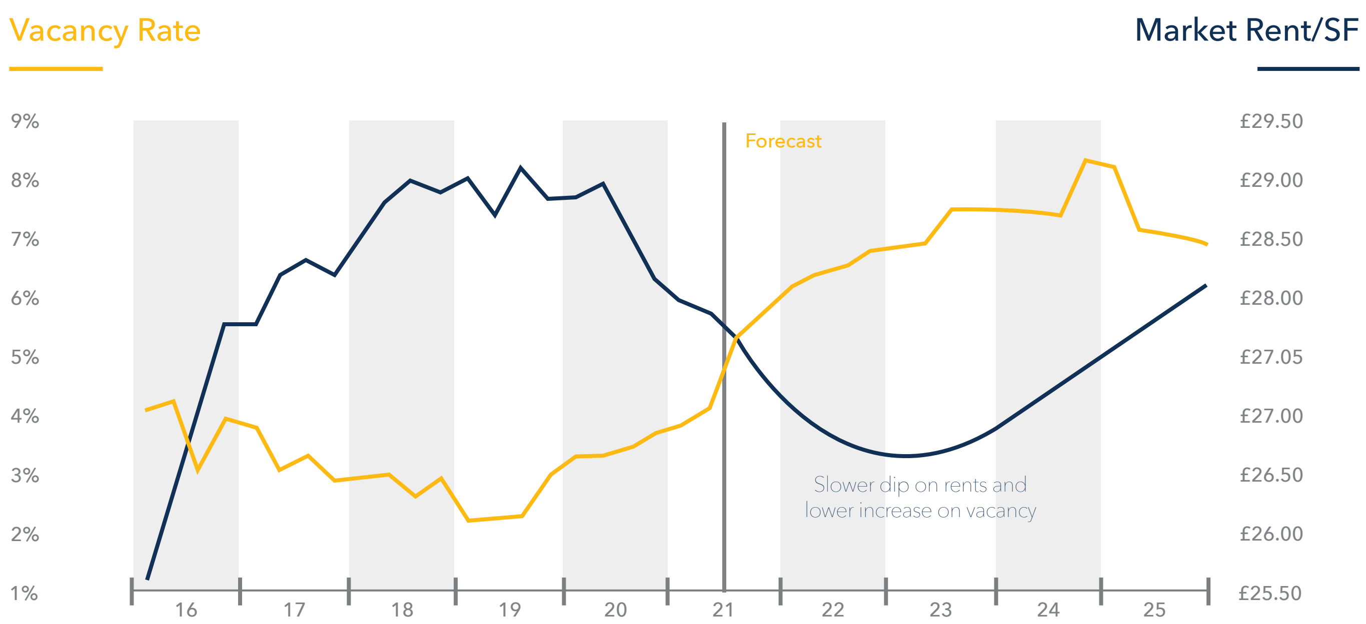
Increase in enquiries for small offices

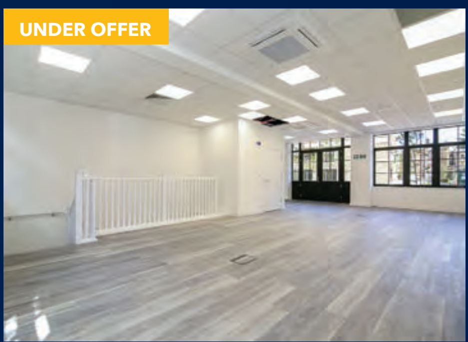
Companies creating 'hub and spoke' model

Rents dipped by around 20%

DECENTRALISED OFFICE MARKET

Decentralised offices have taken a hit over the pandemic, however, there is a light at the end of the tunnel and, from Q1 onwards, there has been a steady increase in enquiries especially for units around 1,000 sq. ft. Although attitudes have undoubtedly changed, research indicates that, on the whole, workers are more productive working from the office than at home. With values dipping on average to around 20% from where they were mid 2019, space is more affordable and decentralised offices are set to benefit from companies looking to create a 'hub and spoke model' i.e. working from home co-ordinated from a convenient office base address.





Unit 10, 252 Camberwell Road, SE5 - 711 sq ft
£15,000 per annum

Clyde Terrace 3,500 to 9,000 sq ft
£20,000 per annum

Unit 3, Camberwell Passage, Camberwell Road, London, SE5- 2,879 sq ft
£66,000 per annum

Surge in enquiries since lockdown has been lifted

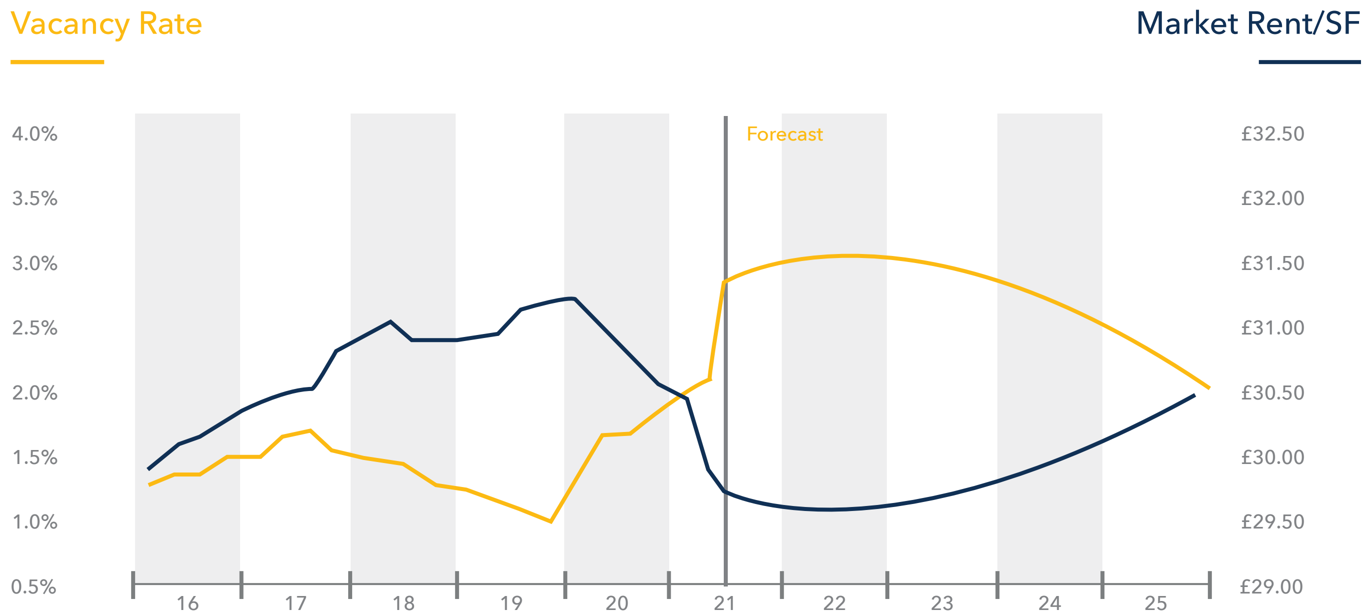
Nurseries and gyms active

Values are expected to stabilise

RETAIL **MARKET**

Local shops continue to remain in demand as shoppers avoid big centres. This demand is from users that cannot be replaced by internet suppliers such as convenience stores, hairdressers, community cafes, health uses etc.

Nurseries and gyms are currently active in searching for new locations, particularly as they have benefitted from the flexibility of the new E- class system that came into effect at the end of Q2 2020. The Graph below only has a range of £2 psf which tends to exaggerate the level of movement which is under 6%.



Tower Bridge Road, SE1
18,954 sq ft and £40psf

Great Suffolk Street, SE1 - 1,278 SQ.FT
£22,500 per annum

Knights Hill, SE27 - 2,392 SQ.FT
£1,150,000

Slight increase in average rents

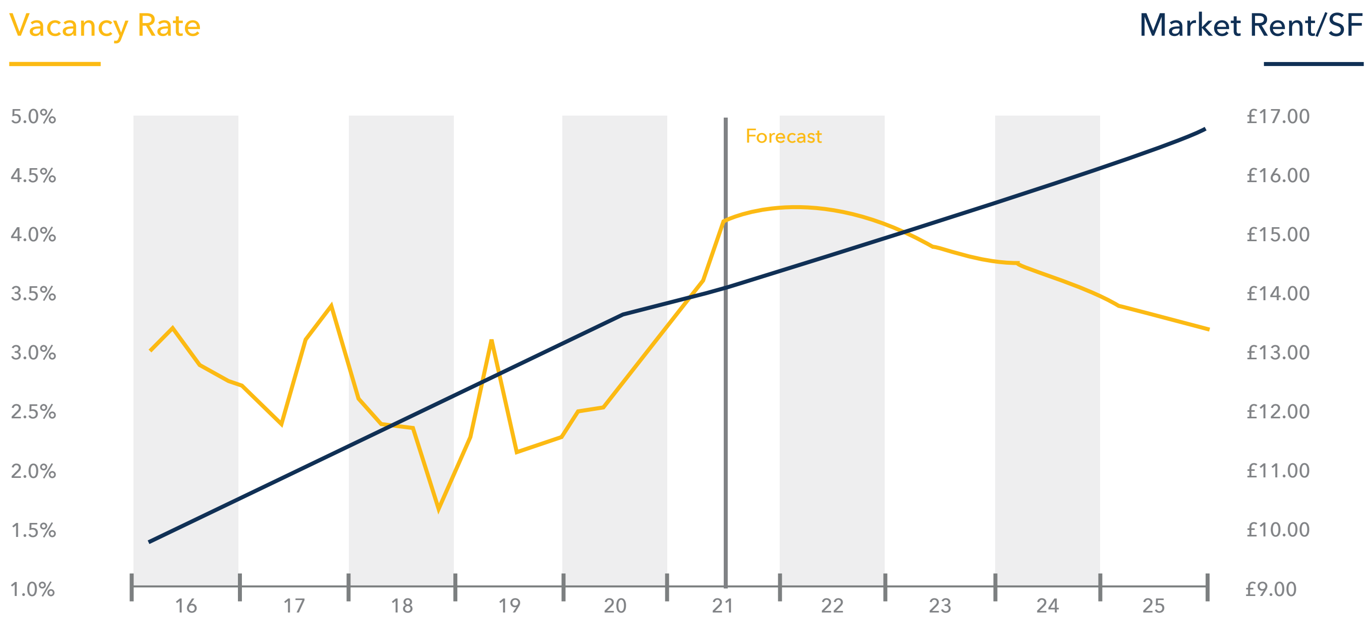
Vacancies continue to increase

Applicant numbers have grown

INDUSTRIAL **MARKET**

Demand for industrial property saw rents across the south London market increase to an average of £15.55, which was up 5% on the previous quarter. The increase in asking rents, as well as the challenging economic situation, resulted in a 1.5% increase in vacancy year-on-year but supply is still tight and included short term space and older properties at low rents.

Heading further into 2021, we expect to see a slight increase to the average rents as demand continues to grow, with vacancy levels beginning to drop back down as more lettings and sales are completed as confidence in the economy returns.



Juno Way SE14 - 3,868 SQ.FT
£24 psf

Nathan Way SE28 - 36,669 SQ.FT
£6,000,000 O.I.R.O.

Browning Street SE17 - 7,181 SQ.FT
£130,000 per annum


Call **KALMARs** for incisive comments
as the market returns
we are never 'on mute'

Increased activity in the a marketplace	Stamp duty incentive extended	95% mortgages re-introduced

PRIVATE
RESIDENTIAL SALES

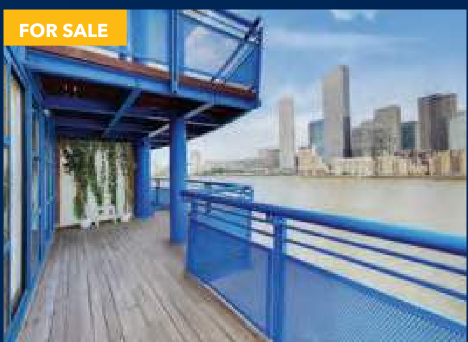
House prices rose by 6.5% over the last 12 months, fuelled by :-

- Government incentives
- The longstanding shortage of property in London
- Many people not having been able to spend money on leisure and shopping have more disposable income than they had previously.

The important announcement within the housing industry was a much-anticipated extension to the Stamp Duty Land Tax holiday. This will help aid buyers struggling to hit the previous March deadline but is also likely to create a similar wave of interest for those hoping to meet the new June and September cut-offs.

Another big announcement was a scheme introduced for lenders offering 95% mortgages. The scheme may help to benefit a wider marketplace but is unlikely to dramatically affect property pricing.

KALMARs are pleased to welcome Mauro Carmo Silva to our team. Maurohas a wealth of experience in sales having worked in leading companies for over 15 years



Harwood Point, Rotherhithe Street, SE16
£1,250,000

Lion Apartments, Rotherhithe New Road, SE16
£550,000

Kipling Street, SE1
£600,000

Average days on the rental market: 17 days	Rental growth down by 2.8% compared to 1.3% a year ago	Average rental £1,600 pcm

RESIDENTIAL **LETTINGS**

The average number of days a letting property will be on the market is 17 (Zoopla report for London). Perhaps reflecting short term concerns about living in London, and a switch to buying, there has been a reduction in rents of approximately 2.8% year-on year but KALMARs are generally getting higher rents than a year ago, for instance. As business activity in London increases, it is likely that rents will increase in the latter part of the year.

New-build developments and modern refurbished apartments are in high demand due to lack of supply, but it is important to get the rental level correct to ensure any void period does not undermine the benefits of an increased rent.

Scotts Sufferance Wharf, Mill Street, SE1
£2,100 pcm

Grices Wharf, Rotherhithe Street, SE16
£2,816 pcm

Eliza House, Glasshill Street, SE1
£4,000 pcm

Costly ground rents are now prohibited

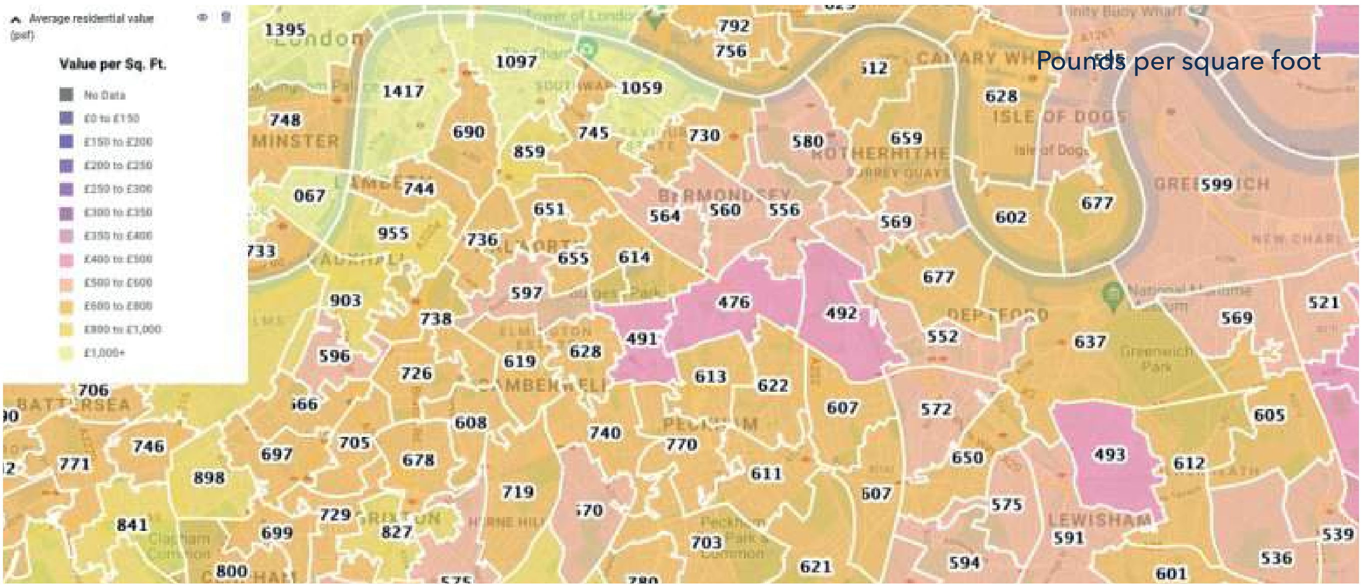
Potential ending of government incentives resulted in a flurry of activity

Innovative schemes are particularly popular

6.5% growth in house prices

NEW **HOMES**

Q2 was been very active with buyers making the most of the current Help to Buy (HTB) packages and the stamp duty incentives being extended. Buyers are currently attracted by properties with outside/green space and an extra bedroom that can be turned into an office. Packages are now available online to turn your garage into an instant office. Also buildings that have a high level of hygiene with contactless facilities are popular.



Figures produced by Nimbus

Milli House, Ilderton Rd, SE16 From 569 sq ft
From £450,000

Hyde Vale, SE10 From 740 sq ft
From £825,000

6 Bombay Street, SE16 From 560 sq ft
From £450,000

Finance remains available

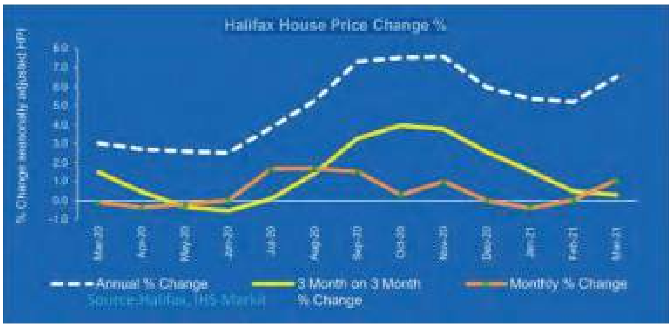
Most sites going to competitive tender

KALMARs have over £50,000,000 exchanged or under offer

SOUTH LONDON DEVELOPMENT MARKET

Due to the underlying strength of the residential market and finance being available, the market for land sales has maintained a reasonably good level of demand, albeit not at the heights that it was pre-pandemic. Three sites that KALMARs have been marketing recently have all gone to competitive tender and have received offers close to or in excess of the guide price. This has been helped by the extension of government support for both help to buy and the suspension of stamp duty. We are excited to be instructed on several major sites already, with others coming on stream shortly.

Housing Associations and the student developers, remain very competitive buyers as they do not require the same level of profits as private developers. The private rented sector has also been active with buyers such as Grey Star and Legal and General moving into this market, an area that our European counterparts have been ahead of us on for decades.



Figures provided by Halifax, April 2021

Sylvan Square, 19-33 Sylvan Grove, SE15
0.64 acre site

79-161 Ilderton Road, SE16
1.33 acre site

Silwood Steet
0.63 acre site

PLANNING CHANGES

The planning system has inherent problems, in particular it is not providing much needed housing. This is compounded by the speed at which applications are handled, a major application typically being around 3 years, holds back progress. By the time an application is granted, the market has often moved on as different requirements prevail. This exacerbates the housing shortage, the provision of jobs and of course challenges the owners ROI to an extent that deters development. The play between political and market forces also has fundamental problems, examples being late stage reviews of profitability, making development unfundable and the rejection of any car parking, particularly on commercial space, being unacceptable to many occupiers.

The government tried to bring in changes to help but, by and large, these have proved to be more complicated and are often ineffective as they are overruled by the local authority. These changes include the following:-

Class E
This was introduced in September 2020 to replace the old Class A1 retail, A2 counter serviced offices, A3 restaurants/café, B1 offices, B1c light industrial, D1 non residential institutions such as clinics, health centres, nurseries and art galleries and some D2 assembly and leisure uses. Many other previously defined uses have been put in the sui generis bracket, which includes pubs, hot food takeaways, taxis, and laundrettes, which means a planning application is required for any other use. In practice local authorities are seeking to continue to restrict uses where they can. For instance, redundant pubs, many of which have sat empty for many years, are generally sought to be retained even if they remain unused for years to come.

Class MA
This Prior Approval opportunity came into effect on the 1st August 2021 and allows Class E to be used for residential up to a maximum of 1,500 sq m in buildings that have been empty for 3 months. Local authorities have the opportunity to produce what are known as Article 4 areas which exclude this permission. This is typically applied in shopping streets but can be very widely used and can significantly water down the effect of this change. This will not apply where there are physical problems such as the ground floor being in a flood zone or a listed building.

Permitted development
There are various new Prior Approval opportunities for potentially increasing the height of existing homes and buildings by a maximum of two storeys. These can be used to extend existing homes but also create new apartments. There are various criteria that need to be met to ensure that development can qualify for these Permitted Development Rights, as well as the council having the opportunity to assess the acceptability of the development proposal with regards to specific topics, such as flooding, transport, contamination, etc.
Both the Class MA and permitted development require the local authority to respond to the application for the development and either accept it or explain why not within 56 days. Many of these changes have made the system more complicated and done nothing to speed it up.

A root and branch change is required in dealing with these applications. Some improvements could include:

- On big applications the developer may pay for extra staff within the council, who would be entirely independent of the developer, but could speed up what can be fundamental changes employing large numbers of people and providing much needed housing.

- Having clearer ground rules. For instance, many councils make it clear there has to be 35% affordable space within a residential development, so everyone knows where they stand.

- Working with local stakeholders and developers to draw up plans and then sticking to the plans.

Too often planning is about limiting applications rather than providing a vision and then helping to deliver it in a collaborative way.

The authorities with the highest refusal rates for office-to-residential prior approval applications*

Rank	Planning authority	Total decisions determined	Total applications refused	Proportion of applications refused
1	Newham	5	5	100%
2	Enfield	24	21	87.5%
3	Calderdale	5	4	80%
4	Runnymede	25	18	72%
5	Lewisham	24	17	70.8%
6	Hackney	6	4	66.6%
7	Crawley	9	6	66.6%
8	Tandridge	9	6	66.6%
9	New Forest	6	4	66.6%
10	Southend-on-Sea	23	15	65.2%

*April 2020 - March 2021

WE ARE **KALMARs**

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Sunday: Closed

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